TRS MEMBERS' NEWSLETTER

VOLUME 2 NUMBER 2 SPRING/SUMMER 1999

OUR BOARD MEMBERS

Joe Cross, Chairman
Virginia Egli
Jima Severson
Jim Turcotte
Tim Ryan
Emily Hall Bogut

Since our last newsletter, we have two new Board members - Tim Ryan and Emily Hall Bogut. Mr. Ryan was appointed to fill the vacancy created when Mr. Jim Cowan resigned and Ms. Bogut was appointed to fill the vacancy created when Dr. Rick Stuber's term expired.

Tim Ryan, Public Member of the Teachers' Retirement Board - Mr. Ryan is the Executive Director of High Plains Development and Port Authority, Inc., Great Falls, Montana, and serves as a public member of the Teachers Retirement Board. Mr. Ryan was raised and educated in Minnesota. He successfully owned and operated his own franchised automobile dealership for twenty plus years. Mr. Ryan currently serves on several boards, i.e., Montana Board of Investments, Great Falls Airport Authority, University of Great Falls President's Council, and Ex-Officio of the Great Falls Area Chamber of Commerce Board. In addition, Tim is a founding member of the Committee of '80, a Great Falls Citizen lobbying group. In past years, he has served as President of the Montana Auto Dealers' Association, President of Great Falls Area Chamber of Commerce, Director of the National Automobile Dealers' Association, Director of the Montana State Chamber of Commerce and he is a lifetime trustee of Montana Automobile Dealers' Association Health Insurance Trust. Mr. Ryan has served as Executive Director of High Plains Development and Port Authority, Inc., since June 1, 1994.

Emily Hall Bogut, Active Member of the Teachers' Retirement Board - Ms. Bogut teaches fourth grade at Evergreen Schools, Kalispell, Montana. She graduated with a Bachelor's Degree from Western Montana College, and earned a Fifth Year and a Master of Science Degree in Elementary Education from Northern Montana College.

Emily has been a member of MEA throughout her teaching career, is currently a member of the MEA Resolutions Committee, and is the president of her local association. She is a native of Montana and has taught in four Montana school districts, served as a board member of a private school, and established and operated a private kindergarten. Her hobbies include bowling, golf, reading and travel.

HOUSE BILL 72 GUARANTEED ANNUAL BENEFIT ADJUSTMENT

The 1999 Legislature passed House Bill 72, introduced by Speaker John Mercer, providing retired teachers with a Guaranteed Annual Benefit Adjustment (GABA) of 1.5%, to be paid each January to all retirees who have been retired at least 36 months. This proposal, or something like it, has been introduced in just about every legislative session since 1983. We would not have been successful this session if it were not for the support of Governor Marc Racicot, the Montana Retired Teachers and School Personnel Association, Montana Education Association, Montana Federation of Teachers, the School Administrators of Montana, Montana Rural Educators Association, our active and retired members and many others too numerous to mention who have been long-time supporters. A special thank you to Alve Thomas who has been there with us each and every session, testifying and supporting the Teachers' Retirement System. Also, many thanks to the bill's sponsor, Speaker Mercer and the many co-sponsors who made 1999 a big success.

House Bill 72 also provides for a one-time ad hoc $500.00 minimum benefit adjustment for any retiree or their beneficiary(ies) if the member retired with 25 or more years of creditable service and on July 1, 1999 is receiving a gross benefit of less than $500.00. This adjustment will be made with the July 1999 benefit, which is mailed the last working day of July.

Funding for GABA will come from three sources. The majority of the cost will be funded from the Teachers' Retirement System by increasing the period required

to amortize unfunded actuarial liabilities from 9.2 years as of July 1, 1998, to 26.0 years. The employee contribution rate will increase 0.106%, from 7.044% to 7.15%, and the state general fund will also contribute 0.11% of all salaries reported to the Teachers' Retirement System each month. The employer, i.e. school district, contribution rate will **not** increase.

IRS ISSUES FAVORABLE RULING

The Internal Revenue Service recently issued a "Favorable Determination Letter" in which it found that the Montana Teachers' Retirement System was a "qualified plan". A qualified plan is entitled to favorable tax treatment such as, deferral of federal and state income taxes on members benefits as they accrue and on the investment income of the TRS. Lump sum distributions may also qualify for further deferral by rollover to another qualified plan or individual retirement arrangement. Plans that fail to meet the requirements of a qualified plan are not entitled to favorable tax treatment.

As a qualified plan, the Teachers' Retirement Board asked the IRS to approve deferring taxes on employee contributions to purchase additional service via payroll deductions and for deferral of taxes on employee contributions on termination pay. These requests also required amendments to the current laws governing the TRS. (See related article on HB 118.) Without these amendments and IRS approval, many members of the Montana Teachers' Retirement System would have seen the amount they can contribute on termination pay reduced and thus their benefits reduced because of Internal Revenue Code § 415.

We are very please to report that the IRS has also approved our request to give members the option to purchase additional service and to contribute on termination pay with tax-deferred dollars. A member wishing to take advantage of these options must sign an irrevocable election form. If the prescribed procedures are not followed and the correct irrevocable form is not signed, a member may find the amount they can contribute reduced resulting in lower than anticipated benefits.

Our request to contribute on termination pay with tax-deferred dollars was quite different from the type of request the Internal Revenue Service usually receives. However, it was imperative that we receive a favorable ruling from the IRS, so that our members could receive the maximum benefits available under the Teachers' Retirement System. Senator Max Baucus and his office provided many hours of support in helping to secure this ruling. Many thanks to Senator Baucus for his help and support.

HAS YOUR ADDRESS CHANGED?

TRS must be advised immediately of any changes in your home mailing address, including zip code updates. Requests must be submitted in writing, including your signature. Please write to: Teachers' Retirement System, P O Box 200139, Helena, MT 59620-0139. An updated address will ensure that publications and valuable documents will reach you in a timely fashion.

POST-RETIREMENT EARNINGS

Any retired member of the State of Montana, Teachers' Retirement System (TRS), may be employed as a part-time or substitute teacher in Montana and earn, without loss of retirement benefits, an amount not to exceed the greater of: (1) one-third (1/3) of the sum of their average final compensation plus normal annual salary increases granted teaching personnel in the district from which they retired; or (2) one-third (1/3) of the median average final compensation for members retired during the preceding fiscal year as determined by the retirement Board.

If you are employed in a part-time or substitute position covered by the Teachers' Retirement System (TRS), you are **not** required to contribute to TRS until you have exceeded the amount you are allowed to earn. Should you exceed one-third of your average final compensation or one-third of the median salary, whichever is greater, your monthly retirement benefit will cease the first of the month in which the earnings exceeded your maximum allowed and you shall be reinstated to active membership status.

TRS retirees are **only** limited in the amount they may earn if employed in a position reportable to the Teachers' Retirement System.

The 1999 legislature clarified who is a retired member to mean a person who has terminated employment covered under the Teachers' Retirement System and who has **received** at least one monthly benefit. Since benefits are always paid at the end of the month, a member must wait at least one month following termination before returning to employment that would normally be covered under TRS. In other words, a member may not retire on Friday and return to work in a part-time capacity on Monday.

YEAR 2000 COMPLIANCE

It is the problem of the century. Literally. By now, most of us have heard about all the computer problems associated with the year 2000. The issue is simple: many computer systems will misinterpret the year "00" as 1900 rather than 2000. Unless appropriate action is taken, this flaw, known as the Y2K problem, can cause systems that support these functions to compute erroneously or simply not run at all.

The Teachers' Retirement System has researched and tested our data processing systems and determined that all aspects are year 2000 compliant. We would like to assure all of you – especially our retirees – that TRS benefit checks will still arrive after January 1, 2000. All government agencies have been required, through Presidential Executive Order, to seek a solution. The Federal Reserve, FDIC and the Department of Treasury also have been working extensively to make sure that the Automated Clearing House can manage electronic fund transfers (EFTs) in the new millennium. Of the many businesses in the world, financial institutions have been preparing for this problem the longest.

Since most of the financial institutions that we do business with are leading the way in Y2K compliance and we are working hard to make sure our own computer systems are ready, we are confident that it will be business as usual at TRS in the year 2000.

TEACHERS' RETIREMENT SYSTEM
HOUSE BILL 118

House Bill 118, effective July 1, 1999, makes several changes to the language of the Teachers' Retirement Act necessary to comply with the Internal Revenue Code requirements to be a qualified plan. If we do not retain our Qualified Plan Status, the benefits and investment earnings become taxable as they accrue. If investment earnings become taxable, additional contributions would be required to make up the loss in order to remain an actuarially sound system. Some of the less obvious changes made by HB 118 include a requirement that substitute teachers sign an irrevocable election if they wish to become a member of the Teachers' Retirement System. However, once a substitute teacher becomes a member they must be reported each and every year that they continue to teach thereafter.

This legislation also includes two very important improvements that allow members the option to purchase additional service via payroll deduction with tax-deferred dollars, and the option to contribute on termination pay with tax-deferred dollars. Without these improvements, a few members would see the amount they may contribute to the Teachers' Retirement System reduced in order to comply with Section 415 of the Internal Revenue Code. As an added bonus, members electing to defer taxes on contributions to purchase service or contributions on termination pay will see significant tax advantages by contributing with tax-deferred dollars. The favorable tax advantages of HB 118 on termination pay contributions are illustrated in the following table.

EXAMPLE OF HOUSE BILL 118 TAXATION ADVANTAGES

	Current Calculations Without HB 118	Calculations Subject To HB 118
Termination Pay	$ 9,710.00	$9,710.00
Taxable Termination Pay	9,710.00	1,963.00
Federal Tax (20%)	1,942.00	392.60
State Tax (6%)	582.60	117.78
Social Security	742.82	742.82
Employee Contributions	7,747.00	7,747.00
NET PAY	**$ (1,304.42)**	**$ 709.81**

A member wishing to contribute on termination pay with tax-deferred dollars must sign an irrevocable election at least 90 days prior to his/her termination. The earliest this enhancement would be available to a member would be for termination no earlier than September 30, 1999, with a retirement effective date of October 1. Please contact the TRS after July 1, 1999, to request the irrevocable election form. Each employer must adopt a resolution before members may purchase service with tax-deferred dollars. Following adoption of the employer resolution, each member must sign an irrevocable election form authorizing payroll deductions of not less than 3 months and not more than 60 months. The irrevocable election forms will be available only

from the Teachers' Retirement System. Once the resolution has been adopted by an employer, all employees of that employer using payroll deductions to purchase additional service must sign an irrevocable election form before they can continue to purchase service via payroll deductions. If an employer adopts the resolution and some members do not wish to use tax-deferred dollars to purchase service, they will still be able to purchase service by submitting a check directly to the TRS office.

The procedures for purchasing service with tax-deferred dollars and the required IRS resolution will be mailed to all employers in June. Again, members will not be able to purchase additional service with tax-deferred dollars until their employer has adopted the prescribed resolution, and following adoption of the resolution, the member must sign a irrevocable election form if they wish to continue purchasing service using payroll deductions.

Amounts contributed to TRS on a tax-deferred basis may reduce the maximum amount that an individual can contribute to a Tax Sheltered Annuity (TSA). Members contributing to a Tax Sheltered Annuity or considering maximizing their TSA contributions in their final year, should consult with their TSA provider and the Teachers' Retirement System before signing any irrevocable election forms.

When completing forms to be returned to the Teachers' Retirement System, please be sure to use *BLACK* ink.

OFFICIAL PUBLICATION OF THE TEACHERS' RETIREMENT SYSTEM, P O BOX 200139, HELENA, MT 59620-0139 – PHONE (406)444-3134
Should any information in this newsletter raise any questions of interpretation of the law, the official wording of the laws of Montana will govern.
Upon request, this newsletter can be made available in alternative formats.